

THE TAX ADVISER

Jumping Into the Cloud: Are You There Yet?

TAX PRACTICE MANAGEMENT

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It is nearly impossible to be a tax professional today and not have some exposure to cloud computing, although the experience varies across age groups, firm sizes, industries, and, of course, the individuals involved.

Cloud computing has taken on an almost mystical aura, but in reality most of us have been doing it for years and in many cases have been unaware that we were early adopters. Cloud computing, at least from a tax practitioner's perspective, involves the use of hosted service applications, such as tax return preparation, that run network-based software on a non-company owned server at a remote location. As with any technology, there are early adopters who have been in the cloud for years, and there are those who are resistant to change. Accountants are traditionally more wary of change, meaning a great number of CPA firms likely have not embraced cloud technology.

Case for the Cloud

For those practitioners among the many who have not yet made the leap to the cloud, there are many advantages to consider. Some of the biggest advantages to a cloud-based system are with firm infrastructure, staff attraction and retention, and client service. One great advantage is that a small firm can operate like its much larger counterparts. Because it is no longer restricted by geographic boundaries, it can select from a larger pool of qualified staff, as well as offer cutting-edge service to existing and potential clients.

IT Advantages

In the past, a small tax office could not afford to maintain a server and software to support the technology that is now available on the cloud to everyone. A sole practitioner or smaller firm no longer has to invest in servers, IT staff, or specialized consultants. The cloud has effectively leveled the technology playing field. These firms can now access the best and brightest IT specialists that cloud vendors can afford and have already retained to develop their products.

Staffing Advantages

With the increase in Baby Boomer retirements, tax practices across the country are looking for new staff. The increased need for qualified professionals, coupled with the differences in work style between the generations, has complicated the hiring process. Firms that can allow staff to work from remote locations or with flexible schedules have an advantage because they are not limited to local candidates or forced to pay for expensive relocations of out-of-state hires. Also, the updated technology can be a positive recruiting tool in itself.

Client Service Advantages

Growing tax practices need to ensure that existing clients are receiving excellent service and that new clients are being acquired with some regularity. While many clients will remain satisfied with the status quo, the majority will appreciate anything the firm can offer that improves their experience, including reduced reliance on paper documents changing hands, postage or delivery costs, and actual visits to the office. It could also mean real-time access to their tax documents and the ability to complete and view documents from the comfort (and convenience) of their home or office.

A cloud-based system will make these and many other client service options available. They will

be a perk for existing clients and will serve as excellent selling points with potential new clients. However, the firm must be willing to take some risks to migrate to a cloud system.

Fear of the Cloud

The root of most wariness seems to be with the internet-based nature of a cloud system. The firm's very core is no longer tethered to a giant humming machine in a backroom and managed by a team of IT specialists. It is now suspended somewhere in cyberspace, outside the firm's physical control.

Concerns About Accessing the Data

A strong, secure, and reliable internet connection is an absolute necessity when working with cloud systems. Intermittent service outages slow the work, and a complete loss of access can cripple a full cloud-based tax practice.

The practitioner who is concerned about relying on a good connection to the internet has a valid fear. However, an alternative argument is that a bad internet connection is less of an interruption to work than an office server outage. Any practitioner moving to the cloud must implement a good backup plan. When the server goes down at a firm that is not in the cloud, the firm's entire operation could be paralyzed until the problem is fixed. However, with the large number of internet providers and methods available, when one service is down, the solution for a cloud-based firm could be as simple as jumping onto a different connection.

Concerns About Securing Client Information

Many fear that web-hosted servers make the firm and their clients vulnerable to data theft. Although that is true, data are also compromised when a laptop is left in the back seat of an employee's car or a tax file is left open on a desk over the weekend. The beauty of cloud-based solutions is that the computer's role can change from that of a processor and keeper of information to simply a vessel for reaching that information. If, for whatever reason, a computer is damaged or stolen, the passwords for that user can be changed from another location, and the original unit can no longer access confidential information. Thieves do not have a computer filled with confidential client records but instead have one with a lot of internet links that no longer work.

Along these same lines is the concern that a lack of visual confirmation that the files exist means that they can vanish into the great unknown at any moment. Again this is true, but the same would be true if a tornado, hurricane, fire, flood, or other disaster wiped out the office's servers. A firm with a physical server in the office must have a solid backup plan in place to safeguard against those occurrences or other unforeseeable events. Smaller firms may make regular backups and send them off-site if needed for recovery of data. However, a widespread natural disaster could destroy the original data on the server and also hit the partner's home 5 miles away, destroying the only backup.

While a cloud-based provider should be thoroughly vetted, most, if not all, of them run mirrored systems and make regular backups. A CPA may have a tax practice in Florida, with the main cloud-based server in California and a backup server in Michigan. Additionally, the practitioner can still back up data to store locally.

A firm should not take lightly its duty to perform due diligence in selecting a cloud-based provider. The vendor is responsible for storing the firm's most valuable information, and measures must be taken to ensure that the client information is properly protected. The good news is that most companies offering cloud solutions for CPAs have done their homework, and the good ones already have appropriate security systems and documents in place. Even so, it is never a bad idea to ask for references, run internet and Better Business Bureau searches, and check with a firm's liability carrier to ensure that all proper controls are in place before moving any client records to the cloud.

Fear of change is common and perfectly understandable—the key is to make sure that unrealistic fears do not set in and override the benefits associated with the potential change. As with any new system, it is important to prepare in advance.

Planning the Leap Into the Cloud

Thanks to the early adopters that forged a path, volumes of data and reviews are available. Much of the work has been done, and the best way to get started on transitioning to a cloud-based system is to research what other CPA firms have done. Firms should find out what has worked well and what has failed miserably, so that the bad experiences are not repeated.

The options are vast and vary depending on what matters most to a particular firm. A larger firm may decide that having a dedicated remote hosted server is the best option, and all programs will be installed on that one location. Smaller firms and sole practitioners are more likely to opt for service providers that offer specific cloud-based hosting or software solutions. A number of cloud vendors are available, and with the rise in demand, more are bound to crop up every day. As with any investment, the decision on which vendor to select should be not be taken lightly.

Some items to consider when selecting a cloud-based vendor are:

- Price;
- Service options;
- Accessibility;
- Security;
- Server locations;
- Backup systems;
- History of downtime;
- Support hours; and
- Response time.

While it would be nice not to have price at the top of the list, the reality is that some of the best systems come with a matching price tag. Many vendors do not list prices on their websites or in brochures, so before too much time is spent investigating the product, make sure it falls within the firm's budget.

The level of service and type of systems the firm wants to source to the cloud will determine which vendors to approach. A few commonly desired cloud solutions for tax practice are:

- Accounting software hosting;
- Tax return software;
- Firm document management and data storage;
- Workflow and due date tracking;
- Customer relationship managers; and
- Client portals.

Using the same vendors for all services has its advantages and disadvantages. Obviously, the learning curve and portability issues are much easier if everything is hosted by the same provider. On the flip side, if the vendor is experiencing difficulties, the entire firm can be shut down for a period of time.

Security is paramount for CPAs, especially in light of the increase in tax identity theft. CPAs have always been responsible for providing the highest level of protection for their clients' information, and the same standards exist in the cloud arena. The AICPA's [Cloud Computing webpage](#) has links to resources that address the benefits and risks associated with cloud computing. Professional insurance providers can also be a good resource for checklists and policies to review when transitioning to a cloud-based system.

Server locations and backup systems are key components of the security process, but they are also important practice management issues. Most cloud-based providers have a central server location, but they also have "mirrored" servers or copies of the main servers in different locations. If a natural disaster occurs in the primary server location, it is imperative to have a backup location for the firm's data. As with an on-site server, the backup should never be in the same location as the original data, and preferably, it should not even be in the same geographic location, if possible. The cloud makes this much easier to accomplish.

Formerly, someone had to make a physical backup and take it to a second location to ensure the data's safe storage. With the advent of the internet, a firm's data can be backed up and

stored on the other side of the world instead of the other side of town.

Potential vendors should be asked to provide historical system outages and downtimes. In addition, a firm should look for patterns that indicate weaknesses in the system and the likelihood that certain problems will reoccur. Firms should also inquire about the vendor's technical support, such as whether it is available 24/7 or only during regular work hours and how long it typically takes to respond to and correct any issues.

Structuring a cloud-based system may be as simple as replicating the firm's current manual system, or it may require a complete overhaul. Before setting up a new system, the existing system should be reviewed to determine what should stay and what should go. A firm should include staff and possibly clients in the process to obtain useful feedback. A bad manual system put on the cloud is still a bad system.

An obvious drawback to operating in the cloud is that there must be consistent, reliable access to the internet. If a solid connection cannot be established, the system is inaccessible and is virtually useless. However, in this day and age a firm can obtain internet access from just about anywhere on earth; the key is to plan ahead.

Staff and partner buy-in to a cloud conversion may be difficult and may be the sole reason some firms have not made the leap. Perhaps the best way to win over staff and partners is to include them in the process. A firm should form a conversion team composed of the most seasoned staff and the youngest and most technologically advanced staff. The team should include someone who stands in line for the latest smartphone product and the worker in the back office with the dot matrix printer and typewriter.

The goal is to create a better system for everyone. This includes staff, partners, and clients. Everyone who will be affected by the change needs to understand why the change is happening and how it will improve operations. This is the best time to have a general plan in mind, but the firm should be open to feedback and concerns and use that as an opportunity to shore up loose ends.

The cloud is not going away. In fact, the cloud is ever-expanding. As consumers and staff grow more accustomed to being able to access data online, in real time, they are likely to leave behind firms that do not keep up. CPA firms that are unwilling or afraid to embrace the technology risk being left behind.

EditorNotes

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